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EXECUTIVE SECRETARIAT

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NSC review completed.

Executive Secretary

12/2/82

Date

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CABINET AFFAIRS STAFFING MEMORANDUM

DDI- 9764-82

DATE: 12-1-82 NUMBER: ---------- DUE BY:

SUBJECT: Cabinet Council on Economic Affairs Minutes

	ACTION	FYI
ALL CABINET MEMBERS	☐	☑
Vice President	☐	☐
State	☐	☐
Treasury	☐	☐
Defense	☐	☐
Attorney General	☐	☐
Interior	☐	☐
Agriculture	☐	☐
Commerce	☐	☐
Labor	☐	☐
HHS	☐	☐
HUD	☐	☐
Transportation	☐	☐
Energy	☐	☐
Education	☐	☐
Counsellor	☐	☐
OMB	☐	☐
CIA	☐	☐
UN	☐	☐
USTR	☐	☐
CEA	☐	☑
CEQ	☐	☐
OSTP	☐	☐
	☐	☐
	☐	☐

	ACTION	FYI
Baker	☐	☑
Deaver	☐	☐
Clark	☐	☑
Darman *(For WH Staffing)*	☑	☐
Harper	☐	☑
Jenkins	☐	☑
Wheeler	☐	☑
Kudlow	☐	☑
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CCCT/Gunn	☐	☑
CCEA/Porter	☐	☑
CCFA/Boggs	☐	☑
CCHR/Carleson	☐	☑
CCLP/Uhlmann	☐	☑
CCMA/Bledsoe	☐	☑
CCNRE/Boggs	☐	☐

REMARKS: Attached for your information are the minutes of the November 2, 10, 16, 17 and 18 meetings of the Cabinet Council on Economic Affairs.

RETURN TO:

☐ Craig L. Fuller
Assistant to the President
for Cabinet Affairs
456-2823

☑ Becky Norton Dunlop
Director, Office of
Cabinet Affairs
456-2800

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MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

November 2, 1982
3:00 p.m.
Cabinet Room

Attendees: The President, The Vice President, Messrs. Regan, Shultz, Block, Watt, Baldrige, Donovan, Schweiker, Pierce, Lewis, Edwards, Meese, Brock, Stockman, Casey, Feldstein, Harper, Carlucci, Schmults, Darman, Fuller, Porter, Duberstein, Williamson, Jenkins, Cribb, Cicconi, Garrett, Bailey, Nau, Fowler, and Denend, Ambassador Kirkpatrick, Ms. Dole, Ms. Dunlop, and Ms. Montoya.

1. The Mid-Term Planning Exercise

The Council reviewed a paper prepared by the Council Secretariat which outlined CCEA objectives, accomplishments, and key issues.

Secretary Regan organized his presentation around these three essential elements of the mid-term planning exercise.

The Cabinet Council's objectives are in two groups: first, the major overall goals of the economic recovery program (what some have referred to as the four pillars), and second, goals for specific sectors of the economy and for issues which bear on the efficiency of the economy.

Secretary Regan suggested that reviewing accomplishments lends perspective to the objectives and helps focus attention on what remains to be done. Administration officials have pointed out frequently in recent weeks that Administration policies have:

- o Dramatically reduced the inflation rate;
- o Sharply reduced the rate of growth of federal spending;
- o Reduced the share of GNP taken by the federal government in revenue and also reduced taxes while enhancing on incentives for work, saving, and capital formation; and
- o Reduced the rate of growth of regulations by federal agencies.

These accomplishments are well known, but the Administration is also able to point to the following:

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- A comprehensive review of all federal credit programs, substantially reducing the rate of growth of federal credit demand;
- New job training legislation promising to alter the federal approach to job training;
- Significant financial institution legislation;
- Resisting efforts by specific industries for special assistance and bailout legislation;
- Two successful international summits and progress toward developing cooperative arrangements to harmonize fiscal and monetary policy;
- Keeping the international financial system afloat despite some severe strains;
- Redirecting the thrust of U.S. participation in the multilateral lending institutions after a major review; and
- Developing a new set of initiatives relating to the developing world presented at Cancun.

The Council's review of the tasks that remain during the next two years produced the following conclusions:

- The four pillars of the economic recovery program remain sound;
- There are some specific ways this basic program can be strengthened:
  - Further work aimed at controlling government spending and fulfilling the commitment to a balanced budget;
  - Preserving the legislated future reductions in personal tax rates while exploring fundamental tax reforms and providing enhanced incentives for saving and capital formation;
  - Examining strategies for extending regulatory relief;
  - Undertaking further work on reducing federal and federally assisted credit;

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- Further financial institution reform;
- Comprehensive pension policy proposals; and
- Examining ways of expanding the ability of the private mortgage system to provide funds for mortgage credit.

o On the international side the Administration is:

- Exploring international monetary reforms which might improve the functioning of the international monetary system;
- Seeking ways of promoting international arrangements that will permit the free flow of investment consistent with our national security requirements; and
- Examining the implications and potential problems of foreign government-controlled investment in the U.S.

Secretary Regan concluded by noting that of the remaining problems facing the Administration, none is more important than unemployment. Before turning to the presentation on unemployment, however, he wanted to report on the Latin American debt situation.

The Council focused its discussion on the mid-term planning process. Over the next several weeks, each of the Cabinet Councils will be reporting on planning exercises similiar to the one described by the CCEA. Taken together, these reports will set the agenda for the next two years. As priorities are determined, a phased and orderly sequence can be established for resolving the remaining key issues.

2. Latin American Debt Situation

Secretary Regan reported that there are six or seven countries in Latin America with major debt problems. The most important of these are Argentina, Mexico, and Brazil. Approximately half of their substantial debt is held by commercial banks, and all of the major U.S. banks are involved. Should these governments repudiate these loans at some point, there would be severe consequences for a number of U.S. banks.

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Argentina's situation was made considerably worse by the Falklands War and the slow pace at which economic relations with the British are being restored. Except for two minor points, an agreement with the IMF has been concluded and could be signed by the end of the year. The agreement calls for increased efforts to moderate inflation, holding real wage increases in check, and an improved trade balance.

Mexico's situation is less reassuring because of the size of Mexico's debt and because there has been less apparent progress on an agreement with the IMF. The commercial banks are continuing to roll over the Mexican debt but are becoming increasingly nervous in the absence of progress on an IMF agreement. Mexico is the classic case of a country which borrowed to finance current consumption confident that oil prices would continue to increase.

Brazil's greatest problem stems from a short term reserves crunch. For essentially domestic political reasons, Brazil is reluctant to initiate negotiations with the IMF. The issue is whether or not the banks will maintain confidence in the Brazilian government until elections take place in mid-November.

The Council discussed the implications of increasing LDC debt problems for the IMF. There was broad agreement that the IMF quota would need to be increased, although definitely not as much as some countries were calling for. The IMF will need the resources necessary to deal with the debt problems of a growing number of countries, but it must insist on the conditions in each country which will place it on the road to recovery.

3. The Unemployment Situation

The Council reviewed a paper prepared by the Council of Economic Advisers on unemployment.

Mr. Feldstein began his presentation by briefly reviewing the economic outlook. He pointed out that the level of economic activity in September remained weak; however, the favorable signs of an upcoming recovery were stronger in September than in August, including: the leading indicators, new orders, housing permits, money supply, interest rates, and the stock market. Even with a strong recovery, the unemployment rate

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is likely to remain close to 9 percent in 1984. Reducing the unemployment rate over the next several years will require changes in federal unemployment programs in addition to sustained economic growth.

Mr. Feldstein explained that the unemployment rate is defined as the ratio of the number of unemployed persons to the number of persons in the labor force. Using teenagers as an example, he illustrated how calculated unemployment rates can be misleading. Next, he identified a number of characteristics of the current unemployment situation in the U.S.:

- Heads of households account for only 29 percent of the unemployed;
- In a normal year, job losers account for less than half of the unemployed;
- Most unemployed persons have been out of work for less than ten weeks;
- A small fraction of all unemployed individuals account for a large fraction of total weeks of unemployment; and
- Those unemployed for more than six months in the key declining industries account for only about 0.15 percentage points of the current 10.1 percent unemployment rate.

The future path of unemployment rates depends on the gradual reduction of cyclical unemployment, avoiding a rekindling of inflation, and policy changes to reduce the amount of structural unemployment. The first can only be accomplished gradually; the second holds the prospect of permanently lowering the "inflation threshold" or underlying rate of unemployment in the economy.

The seven million "structurally unemployed" include the following categories:

- Students seeking a part-time job while still in school;
- Young people looking for their first job after leaving school;
- Individuals who have lost their jobs in declining industries and regions;

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- Individuals on temporary layoff because of seasonal or other fluctuations in individual markets; and

- Individuals who quit their previous jobs and are collecting unemployment insurance.

Mr. Feldstein also outlined the range of potential proposals to reform the unemployment insurance system and reduce youth unemployment under consideration by the CCEA Working Group on Unemployment.

The Council discussed the characteristics of the U.S. labor market in more detail. It noted the apparent inefficiency with which the market absorbs new labor market entrants, particularly during the summer when the bulk of school leavers enter the market. The administration of government unemployment benefits can create a disincentive, subsidizing unemployment rather than work. Also, numerous studies have established the counteremployment effects of the minimum wage.

The Council endorsed the efforts of the working group to continue to work on initiatives which might reduce structural unemployment. Mr. Feldstein promised a further report in the near future.

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MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

November 10, 1982
10:30 a.m.
Cabinet Room

Attendees: The President, Messrs. Regan, Watt, Donovan, Schweiker, Lewis, Hodel, Bell, Stockman, Brock, Baker, Feldstein, Darman, Fuller, Duberstein, Gergen, Porter, Jenkins, Williamson, Lyng, Schmults, Hovde, Fiske, Wallis, Trent, Speakes, Atwater, Cribb, Cicconi, Carleson, Boggs, Nau, and Denend, Ms. Dole, Ms. Anderson, Ms. Montoya, and Ms. Dunlop.

1. Latin American Debt Situation

Secretary Regan provided the Council an update on the latest developments in the Latin American debt situation. He reported that Mexico has signed an agreement with the IMF. Also, Argentina has just signed an agreement with the IMF. Importantly, these agreements call for stringent economic policies in both countries giving each the ability to earn foreign exchange to service outstanding debt. The signed agreements should also give commercial banks the confidence to begin lending again. Only Brazil of the major debt problem countries remains to complete an agreement with the IMF.

2. Transportation User Fees

The Council reviewed an issue paper outlining the arguments for and against an increase in federal transportation user fees.

Secretary Lewis presented the case for increasing current transportation user fees by 5 cents per gallon. He noted that the U.S. transportation system is characterized by deteriorating primary and secondary highways, obsolete transit systems, and deficient on and off system bridges. The current 4 cents per gallon tax has been seriously eroded by inflation, making it impossible to accomplish essential maintenance. An additional 5 cents per gallon user fee allocated to federal (2 cents), state (2 cents), and mass transit (1 cent) priorities would permit necessary maintenance to be completed, arresting further deterioration of the system.

Mr. Stockman offered the case against a transportation user fee. He acknowledged that there is a problem of deteriorating roads and bridges. The issue is who is responsible and

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how this should be corrected. Imposing a federal tax to fund local responsibilities when local jurisdictions have the taxing authority to raise the necessary revenue runs counter to the Administration's federalism principles. Implicit in the proposed user fee plan is a reallocation of revenues determined by the federal government. Some jurisdictions will receive more than they contribute in user fees and others obviously less. There is a serious question as to whether the Administration wants to encourage this federal role in yet another government program. Instead, the government should maintain the current tax and concentrate on federal transportation system responsibilities.

Secretary Lewis clarified certain aspects of the 5 cents per gallon user fee proposal. He noted that the revenues would be returned to the states and local jurisdictions as block grants in accordance with the Administration's federalism principles. The increased user fee could be terminated in the future if desired, allowing state and local governments to raise the revenue to continue the program. He claimed that the proposal would create 170,000 jobs in construction and induce approximately 150,000 jobs throughout the rest of the economy. Moreover, the program could be implemented quickly, committing nearly $3 billion within 90 days. It has the support of state and local officials and the Republican leadership in the Congress, and it is viewed positively by the public.

The Council discussed the job potential of the proposal. Although in the near term it would have a positive impact on employment, the user fee proposal is not a jobs bill. The program would be self-financing, and the employment created would accomplish necessary transportation system maintenance.

The Council reviewed the specific components of the user fee proposal. To the extent that the federal government raises revenue from the users of the federal transportation system to repair and maintain the system, the revenue is raised through a true user fee. Raising revenue which is then allocated to local jurisdictions in amounts different from their contributions departs from the pure user fee revenue form. Raising revenue for mass transit through a transportation system user fee is a more serious departure form the user fee concept.

Several members stressed the importance of the national transportation system. For agricultural users, off system roads and bridges are very important, and an increased user

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fee would be supported. Productivity in commercial activities has also eroded because of the deterioration of the transportation system.

The President took the issue under advisement.

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MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

November 16, 1982
8:45 a.m.
Roosevelt Room

Attendees: Messrs. Regan, Baldrige, Pierce, Stockman, Feldstein, Harper, Porter, Trent, Cogan, Clarkson, Summers, McCormack, Whitfield, Holmer, Baroody, Cicconi, Platt, and Denend, Ms. Risque and Ms. Dunlop.

Structural Unemployment

The Council reviewed a paper, prepared by the Working Group on Unemployment and Unemployment Compensation, outlining two approaches to the idea of a wage subsidy for the long-term unemployed as requested by the Council.

The Council considered the remaining four proposals of the fourteen potential proposals addressing structural unemployment outlined in a memorandum prepared for the November 9 meeting of the Council:

11. Increase funding for displaced workers under the Job Training Partnership Act (JTPA). Mr. Cogan explained that the recently enacted JTPA establishes a federal-state matching program to provide training and job search assistance for displaced workers. This option would call for funding above the Labor Department request of $100 million in FY 1983 and $240 million in FY 1984.

    The Council acknowledged the problem of experienced workers being displaced by shifts in the allocation of resources in the economy. Recalling the disappointing performance of past federal programs designed to assist displaced workers, several members expressed the view that whatever new program might be undertaken, there should be greater assurance that it will succeed. There are indications that Congress is concerned with the displaced worker problem and may act on its own to provide assistance.

    The Council discussed the characteristics of displaced workers. In general, they are highly paid with high skills. Noting the example of the aerospace industry in the early 1970's, when a large number of displaced aerospace workers found employment without federal assistance, the Council questioned the precise federal role in assisting displaced workers. There is an important difference in employment opportunities between highly visi-

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ble displaced skilled workers and low skilled workers who are young or have been unemployed for an extended period.

12. Expand worker trade adjustment assistance. Mr. Cogan explained that this proposal would provide additional funding for assistance to workers who are designated as unemployed because of import competition. The Administration's current intention is to reduce the program in FY 1983 and to phase-out adjustment assistance in FY 1984.

    The Council reviewed the record of trade adjustment assistance in promoting necessary adjustments in the labor force. The program has not been an efficient use of federal resources. The principal arguments at this point for continuing the program are that it might forestall enacting more protectionist forms of legislation and that it would demonstrate Administration concern for a visible segment of the unemployed.

13. Expand funding for the Employment Service. Mr. Cogan explained that this proposal would increase funding for the Employment Service:

    1. To provide technical assistance to state and local programs aimed at displaced workers;

    2. To mandate government contractor listing of new openings; and

    3. To provide funding to reopen Employment Service offices in areas of high unemployment.

    Current annual funding for the Employment Service is approximately $800 million. This proposal envisions adding $170 million in FY 1983.

    The Council focused on the effectiveness of the Employment Service. The predominant perception of the Employment Service is that it is among the least efficient programs in government. In part, the Service's difficulties are the result of increases in assigned responsibilities without providing necessary priorities or leadership. The Council discussion reflected the view that before funding for the Employment Service is increased, there should be an effort to improve the use of current resources.

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14. Make administrative changes in Labor regulations. Mr. Cogan explained that the Secretary of Labor has authority over regulations governing wages, employment, and labor market conditions which can prevent employing individuals in the hardest hit unemployed groups. For example, the Labor Department could change regulations to facilitate the use of a below minimum wage for learners and to expand apprenticeship programs.

    The Council discussed the feasibility of implementing the changes outlined in the proposal. In general, the Council acknowledged the merit of the proposal, despite the anticipated unfavorable reaction from organized labor.

The Council summarized its views on the proposals considered to date. The focus should be on incentives which encourage work rather than unemployment and on programs which assist in developing real jobs. The Administration should take the lead in developing a positive program.

The Council requested the Working Group to refine the set of potential proposals into "packages" of options for consideration at a meeting with the President next week.

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MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

November 17, 1982
10:00 a.m.
Roosevelt Room

Attendees: Messrs. Regan, Block, Pierce, Stockman, Feldstein, Porter, Trent, Fiske, Mehle, Cogan, Schneider, Kudlow, Cicconi, Platt, Byler, and Denend, and Ms. Risque.

Federal Credit Policy: The Federal Financing Bank (FFB)

The Council reviewed a paper, prepared by the Office of Management and Budget, on the budget treatment of FFB activities.

Mr. Stockman's presentation focused on the three issues raised at the Council's October 28 meeting when the FFB was first considered:

1. Loans and grants may not have the same budget impact because loans are partially repaid;

2. The budget should distinguish between the cost of loans (interest subsidy plus defaults) and gross loan disbursements; and

3. Placing FFB activities on-budget might further confuse understanding of the federal budget, which is already a less than meaningful guide to policies and priorities.

Mr. Stockman stressed the essential difference between obligations, the current measure of program activity and priorities, and outlays, the stream of financial transactions between the federal government's cash drawer and the rest of the public resulting from spending to implement current and prior year obligations. The outlay ledger does not measure current program or policy priorities, but a complex lagged stream of cash transactions from prior and current year program levels. Also, the outlay ledger does not measure "economic costs" or net business gain or loss under conventional accounting conventions. Thus, outlays are not a good instrument of fiscal control. For control, one must look to the obligations ledger where program commitments can be controlled. Bringing FFB activities on-budget would install a review process at the point where obligations are made.

As a practical matter, there is no clean distinction between loans and grants in federal assistance programs. Rather, there is a continuum of subsidy values across programs. Similarly, it

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is not possible to control federal loan programs based on a measure of profitability or "economic costs." Aggregate federal lending activity runs a large, chronic cash deficit because of the fundamental policy purpose to subsidize preferred borrower classes and activities, not operate a government bank.

The Council discussed the broad implications of placing FFB activities on-budget. There was concern that some programs without strong constituencies in the Congress, such as foreign assistance, would suffer if placed on-budget, and that other less visible programs, such as certain agricultural lending programs, would be disadvantaged if placed on-budget. The Council supported the importance of gaining control of off-budget lending; however, the Administration's proposal should promote fiscal understanding in the Congress and enhance fiscal discipline. The Council noted that a legislative change would be required to move FFB activities on-budget.

The Chairman Pro Tempore directed that a summary issue paper be prepared for a subsequent meeting of the Council to determine a recommendation to the President.

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MINUTES
CABINET COUNCIL ON ECONOMIC AFFAIRS

November 18, 1982
8:45 a.m.
Roosevelt Room

Attendees: Messrs. Regan, Baldrige, Lewis, Feldstein, Harper, Porter, Wallis, Lovell, Kudlow, Savas, Ballentine, Baroody, Skancke, Cicconi, Platt, and Denend, Ms. Risque and Ms. Dunlop.

Report of the National Productivity Advisory Committee (NPAC)

The Council reviewed a series of papers from the National Productivity Advisory Committee outlining 17 recommendations to improve productivity.

Mr. Porter noted that the recommendations were in addition to the 10 recommendations forwarded to the Council by the Advisory Committee last May. The NPAC has established four subcommittees to consider various proposals. The new recommendations to the Council are the product of the NPAC's third quarterly meeting in October. The President recently signed legislation calling for a White House Conference on Productivity to be conducted under the auspices of the NPAC.

Mr. Porter reported on the first 10 new recommendations:

11. Amending the Federal Unemployment Tax Act to permit state agencies to design their own unemployment adjustment assistance programs.

This is currently under consideration by the Working Group on Unemployment and Unemployment Compensation.

12. Providing Department of Labor training and technical support to state readjustment programs for dislocated workers.

The Council discussed the role of the Employment Service, expressing the view that the Service could be made to operate much more effectively. The Council requested Under Secretary of Labor Lovell to: (1) consult private sector experts in job placement on ways to improve the Employment Service; and (2) identify improvements in the Employment Service's operation that could be made within existing resources, including clarifying state and federal responsibilities.

13. Expand the use of employee-management-government committees to address employee, management and economic problems.

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The Council supported the general recommendation of encouraging and facilitating the formation of voluntary employee-management-government committees to address employee, management, and structural economic problems within current budgetary constraints and requested the Department of Labor to continue to provide information and other services to facilitate such cooperative committees.

14. Consolidate federal and state examination of state chartered and federally insured banks.

The Council recognized the merits of the proposal while noting the problems associated with consolidating the regulatory activities of different government agencies. In particular, the Council thought that it was important for the Administration to retain the lead on this issue as the effects of deregulation begin to change the character of financial institutions.

15. Amend the national banking statutes to permit classification of customer-bank computer terminals as "non-branches."

The Council supported this recommendation.

16. Provide Department of Justice guidelines for applying antitrust laws to shared electronic funds transfer (EFT) systems.

The Council supported this recommendation and directed that it should be forwarded to the Justice Department.

17. Establish an appropriate government role in metric conversion.

Noting that, with the termination of the Metric Conversion Board, responsibility had been transferred to the Commerce Department, the Council supported the concept of voluntary conversion and an informational role for the Department of Commerce.

18. Establish Presidential science and mathematics teaching awards for demonstrated excellence in science and math teaching at the secondary school level.

19. Provide joint federal, state, and local government and private sector support for continuing training of secondary school math and science teachers.

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20. Provide incentive awards to young university science and engineering faculty to make a career commitment to university research and teaching.

The Council agreed that the three recommendations concerning science and mathematics teaching should be referred to the Cabinet Council on Human Resources for further consideration. In general, the Council endorsed the concept of an awards program for secondary mathematics and science teachers, but suggested that it might appropriately be a private sector program.

The Council agreed to consider the remaining recommendations at a subsequent meeting.

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